



# Sanctions and sovereignty



Sergey Glazyev

academician of the Russian Academy of Sciences

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It would be childish to proceed from the fact that "when we are beaten, we grow stronger." Although we have indeed strengthened national sovereignty in the economic sphere under the influence of US sanctions, but not to such an extent that we do not pay attention to them at all. Of course, there is damage from sanctions, and it is significantly enhanced by the passive policy of the monetary authorities.

**T**he permanent intimidation of Russia with new "hellish" sanctions has long ceased to excite Russian public opinion. I remember how in 2014 I, like other first US-sanctioned individuals, was interviewed and we all assured journalists that we were proud of such recognition of our services to Russia. Since then, the number of individuals and legal entities subjected to sanctions by the United States and its satellites has increased many times over and has not had any noticeable impact on our country. On the contrary, the retaliatory measures introduced by our government in terms of restricting food imports from these countries significantly contributed to the growth of domestic agricultural production, which almost completely replaced the import of poultry and meat. The defense and energy industries have learned how to circumvent these sanctions, abandoning the use of the



development of digital currency instruments that can be used without resorting to the services of banks that are afraid of falling under sanctions. The people are watching with interest the return to the country of the capital exported by the oligarchs and themselves, who fear confiscations and arrests in NATO countries.

American sanctions have affected not so much Russia as third countries that have come under pressure from Washington. First of all, on our European neighbors, who curtailed most of the cooperation projects in the scientific, technical and energy fields. They also influenced Chinese commercial banks operating in the dollar zone, which preferred to stop serving Russian clients. Russia's trade turnover with the EU and the US has naturally declined, while with China it has grown. In the period 2014-2020 in monetary terms, Russia's trade with China increased by 17.8% from \$88.4 billion to \$104.1 billion. 4% and from 16.3% to 24.1% respectively. The share of the EU in the external trade turnover of the EAEU, on the contrary, decreased from 46.2% in 2015 to 36.7% in 2020.

In fact, with the help of sanctions, the United States is trying to force Russian goods out of the markets of their satellites, replacing them with their own. This was most clearly manifested in the European natural gas market, where the share of the United States has risen sharply, although so far it has not been possible to squeeze Russia out of the European natural gas market.

The main result of the US-European sanctions was the change in the geographical structure of Russian foreign economic relations in favor of China, the expansion of cooperation with which fully compensates for the curtailment of trade and economic relations with the EU. European consumers have to switch to more expensive American energy sources, and producers are simply



Another important result of US sanctions was the fall in the share of the dollar in international settlements. For Russia, as for other countries subject to US sanctions, the dollar has become a toxic currency. By tracking all dollar transactions, US punitive authorities can block payments, freeze, or even confiscate assets at any time. For 8 years after the introduction of sanctions, the share of the dollar in international settlements decreased by 13.5 percentage points. (from 60.2% in 2014 to 46.7% in 2020).

Sanctions have become a powerful incentive for the transition to settlements in national currencies and the development of national payment systems. Thus, in the mutual trade of the EAEU states, the share of the dollar decreased by more than 6 p.p. (from 26.3% in 2014 to 20.0% at the end of 2020).

I remember how, ten years ago, when considering the issue of risks for the Russian banking system at the National Banking Council, I asked the then head of the Central Bank: "Is the risk of disconnecting Russian banks from the SWIFT international banking messaging system, as Western partners did with respect to Iran, being considered? ? To which he received the answer: "We cannot consider the risk of an atomic bomb hitting the Bank of Russia." However, the leadership of the Central Bank took measures - today Russia has its own system for transmitting electronic messages between banks - the Financial Message Transfer System of the Bank of Russia (SPFS), as well as its own payment system for Mir bank cards, which is interfaced with the Chinese Union Pay system and can be used for cross-border payments and transfers. Both of them are open to foreign partners and are already widely used not only in domestic, but also in international settlements. Disabling SWIFT is no longer seen as a large-scale threat - it will benefit the development of our payment and financial information systems.



national sovereignty in the economic sphere under the influence of US sanctions, but not to such an extent that we do not pay attention to them at all. Of course, there is damage from sanctions, and it is significantly enhanced by the passive policy of the monetary authorities. Since 2014, when, with the connivance of the regulator, currency speculators brought down the ruble exchange rate through market manipulation, the latter has been used by sanctioners as a fail-safe fuse for macroeconomic stability. At the same time, it was in 2014, on the eve of the already announced US sanctions, that the Bank of Russia switched to a free-floating exchange rate regime. And only after that the United States introduced them, being sure that speculators would multiply their negative effect. When the ruble nearly halved, Obama said with satisfaction that "the Russian economy has been torn to shreds." As a result of this manipulation of the Russian foreign exchange market, ruble income and savings depreciated, and speculators received more than \$35 billion in profits. But this happened not because of the sanctions, but because of the connivance of the Bank of Russia, which left the exchange rate at the mercy of international speculators on the recommendation of Washington financial institutions.

Only completely naive people can believe in the formation of an equilibrium exchange rate of the ruble in a free floating mode. Self-withdrawal of the Bank of Russia from the regulation of the ruble exchange rate means that this is done by international currency speculators. On the swinging of the ruble, which has become one of the most unstable currencies in the world with a 3-fold supply of foreign exchange reserves, international speculators receive multibillion-dollar profits, and Russians depreciate their ruble savings and incomes along with bursts of inflation. At the same time, the investment climate is hopelessly deteriorating - the



and export-oriented products.

Thus, the damage from the US financial sanctions is inextricably linked with the ideal foreign exchange policy of the Bank of Russia. Its essence boils down to a rigid binding of the ruble issue to export earnings, and the ruble exchange rate to the dollar. In fact, an artificial shortage of money is being created in the economy, and the strict policy of the Central Bank leads to an increase in the cost of lending, which kills business activity and hinders the development of infrastructure in the country.

Sanctions restrictions have led to extremely high demand for corporate financing in the domestic market. Against the backdrop of a relatively low key rate and access to cheaper funding, large banks consistently maintain a net interest margin above the market average of 5.4-6%, while for the largest banks in China, the USA, Germany, France, the UK and Japan, the net interest margin is from 0.8% to 2.3%. However, these windfall profits are not used to finance infrastructure projects, but to acquire disparate non-core businesses that are combined into ecosystems. Most of these businesses remain unprofitable even at the level of EBITDA. Despite this, billions of rubles are still spent on their development. These figures are quite comparable with the volume of investments in a large infrastructure project in the real sector of the economy, capable of bringing both job growth and a contribution to the development of the economy. But such projects (as well as filling the budget) still remain with the commodity companies, while the largest financial corporations prefer to channel their income into the creation of chimeras.

In fact, it was precisely the connivance of the Central Bank that led to the fact that Russia, its industry, were drained of blood and unable to develop.

If the Central Bank fulfilled its constitutional obligation to ensure



monetary base - then financial sanctions would be nothing to us. They could even be turned around, as in other sectors of the economy, for the benefit of the banking sector, if the Central Bank replaced the loans withdrawn by Western partners with its own special refinancing instruments. This would increase the capacity of the Russian credit and banking system by more than 10 trillion. rub. and would fully compensate for the outflow of foreign investment financing, preventing a drop in investment and economic activity without any inflationary consequences. Thus, it would be possible to avoid a long period of decline in real incomes of the population,

Assessing the consequences of anti-Russian sanctions, one cannot ignore the consequences of breaking economic ties with Ukraine. The mutual abolition of the free trade regime and the imposition of an embargo on a wide range of goods led to the rupture of cooperation ties that ensured the reproduction of many types of high-tech products. Blocking the work of Russian banks led to the depreciation of multibillion-dollar Russian investments. The refusal of the Ukrainian authorities to service their debt to Russia led to several billion more dollars in losses. In total, their volume is estimated at about 100 billion dollars. for each side. This is indeed a significant and in many respects irreparable real damage, which we ourselves have exacerbated by retaliatory sanctions.

To date, the result of the economic consequences of anti-Russian sanctions is as follows. The largest losses in relation to GDP were suffered by Ukraine, in absolute terms - by the European Union. Russian losses of potential GDP since 2014 amount to about 50 trillion rubles. But only 10% of them can be explained by sanctions, while 80% of them were the result of the ongoing monetary policy. The United States, which replaces the export of Russian hydrocarbons to the EU, as well as China, which replaces the



consequences of financial sanctions if the Bank of Russia fulfilled its constitutional obligation to ensure a stable ruble exchange rate, and not the recommendations of Washington financial institutions.

Consider the threats of American and European Russophobes regarding new "hellish" sanctions. It has already been said above that the threat of disconnection of Russian banks from the SWIFT system, which is widely exaggerated today in the media, although it will interfere with international settlements at first, will benefit the Russian banking and payment system in the medium term.

The threat to ban transactions with Russian bonds will also benefit us, since their issue in a budget surplus is nothing but a source of profit for foreign speculators. And their profitability is overestimated three times in relation to the market assessment of their riskiness. The termination of the Samoyed policy of the monetary authorities, borrowing money that is objectively unnecessary for the budget at exorbitant prices, will allow us to save billions of dollars. If the sanctioners try to prohibit the purchase of foreign currency bonds of Russian corporations, then it will be possible to compensate for the missing financing for the purchase of imported equipment by buying them out at the expense of a part of excess foreign exchange reserves. If foreign loans are cut off for them, then the risk of their default will fall on the European and American banks themselves.

There is also the potential risk of seizure of Russian state assets. But we can respond symmetrically to this by imposing an embargo on servicing debt obligations to Western creditors and also freezing their assets. The losses of the parties will be approximately equal.

There remains, in fact, one threat - to take away foreign assets from Russian oligarchs. For all its popularity among the common





economy.

At the same time, we need to protect ourselves as much as possible from the expected escalation of US-European sanctions. The most vulnerable spot for our economy is its excessive offshorization. Up to half of the assets of Russian industry are owned by non-residents. There is more than a trillion dollars of capital exported from the country abroad, half of which is involved in the reproduction of the Russian economy. A one-time freeze of these assets can really drastically worsen the position of a number of strategically important enterprises dependent on the foreign market. The Americans showed how this is done using the example of Rusal, establishing their control over it under the threat of stopping foreign trade activities. We could respond to this by nationalizing at least the gigantic hydroelectric power plants transferred to this corporation for nothing and on dubious grounds, on which the lion's share of its profits is based. But for some reason, they did not begin to protect this one of the structural sectors of our economy from a raider takeover by the US Treasury.



From the above it follows the need for effective measures for real deoffshorization of the economy, as well as bringing the policy of the Bank of Russia in line with its constitutional obligations. Also, measures to tighten foreign exchange regulation in order to stop the export of capital and expand targeted lending to investments and working capital of enterprises in need of financing will not interfere. It is advisable to introduce taxation of currency speculations and transactions in dollars and euros in the domestic market. We need serious investments in R&D in order to accelerate the development of our own technological base in the areas affected by sanctions - primarily the defense industry, energy, transport and communications. It is necessary to complete the de-dollarization of our foreign exchange reserves by replacing the





abroad is akin to high treason and it is high time for the regulator to stop it. It is necessary to quickly introduce a digital ruble, which could be used for cross-border payment and settlement transactions bypassing the banking system subject to sanctions pressure. We should hurry up with the creation of our own exchange space and ruble pricing mechanisms for the commodities we produce in abundance. Propose to partners in Asia to introduce a global payment and settlement currency based on the index of national currencies and commodities. It is possible to unilaterally remove sanctions from Ukrainian enterprises, at the same time easing the position of the Russian population employed in them. Maybe come out again with the initiative of a single economic space from Lisbon to Vladivostok, encouraging a healthy part of the European business and political elite. Try to create a broad international coalition for the restoration of the norms of international law, including the norms of the WTO and the IMF, which Western sanctions shamelessly violate with their sanctions and trade wars.

In general, much remains to be done to strengthen national sovereignty in the economy. American sanctions are the agony of the outgoing imperial world economy based on the use of force. To minimize the dangers associated with it, it is necessary to accelerate the formation of a new - integral - world economic order, restoring international law, national sovereignty, equality of countries, a variety of national business models, the principles of mutual benefit and voluntariness in international economic cooperation.

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